

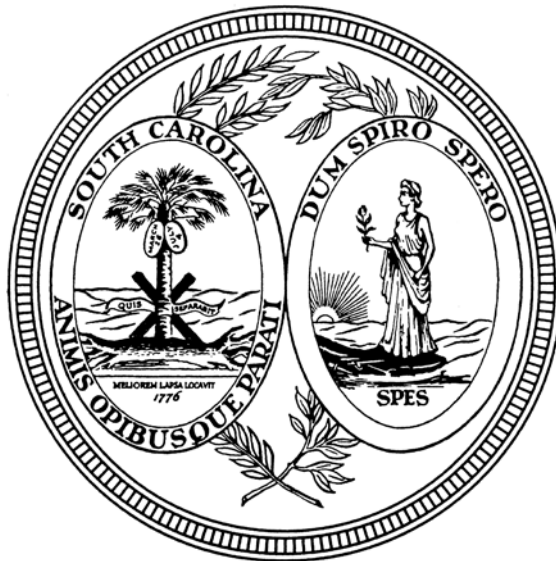


SOUTH CAROLINA GENERAL ASSEMBLY

# Legislative Audit Council

October 2010

## A REVIEW OF THE SOUTH CAROLINA WORKFORCE INVESTMENT ACT PROGRAM



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# Legislative Audit Council

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## A REVIEW OF THE SOUTH CAROLINA WORKFORCE INVESTMENT ACT PROGRAM

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# Introduction

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## Audit Objectives

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Members of the General Assembly asked the Legislative Audit Council to review the Workforce Investment Act (WIA) program in South Carolina, which currently is operated by the Office of the Governor, the state workforce investment board, the Department of Employment and Workforce (DEW), and local workforce investment boards throughout the state.

During most of our review, the Department of Commerce was the lead WIA agency in South Carolina. Since June 2010 the newly-created Department of Employment and Workforce has been the lead WIA agency. This department also administers unemployment benefits, which were formerly administered by the Employment Security Commission

Through the WIA program, established and funded by the federal government, South Carolinians receive job training and other employment-related services. Our audit objectives were to:

- Evaluate the outcome measures used by the WIA program to monitor its success in obtaining jobs for South Carolina workers, increasing their job skills, and increasing their wage levels.
- Evaluate the accounting and record-keeping practices of the WIA program regarding its expenditures and efficiency.
- Determine the methodologies used by the WIA program to allocate funds to regions within the state and to the various services provided by the program.
- Examine a sample of WIA contracts entered into by the state government, area workforce investment boards and agencies, and direct service providers.
- Determine whether the organizational structures of the WIA program can be improved to better support the achievement of its objectives.

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## Scope and Methodology

Our review focused primarily on the role of the state government, which oversees the WIA program on a day-to-day basis. The period of our review was generally FY 07-08 through FY 09-10.

To conduct the audit, we used evidence which included:

- Data from the department's WIA and finance offices.
- Federal laws and regulations.
- State and local WIA strategic plans.
- Interviews with state officials.
- Interviews with employees of WIA one-stop centers.
- Information from WIA programs in other states.

Criteria for this review included federal laws and regulations, agency policy, and the practices of other states.

When addressing some of our objectives, we relied on computer-generated data. We performed audit tests to confirm the reliability of data when it was significant to our findings.

We conducted this performance audit in accordance with generally accepted government auditing standards with the exception of the general standard concerning quality control. Due to LAC budget reductions, funding was not available for a scheduled external quality control review. In our opinion, this omission did not affect the results of the audit.

Generally accepted government auditing standards require that we plan and perform the audit to obtain sufficient, appropriate evidence to provide a reasonable basis for our findings and conclusions based on our audit objectives. We believe that the evidence obtained provides a reasonable basis for our findings and conclusions based on our audit objectives.

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## Background

The Workforce Investment Act of 1998 created a federally-funded program to provide employment and training services to the general public. The program's predecessor was the Job Training Partnership Act program. Table 1.1 outlines the history of federally-funded workforce development and job training programs.



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**Table 1.1: History of Worker Training Program**

PROGRAM	YEARS IN EFFECT	FEATURES
Comprehensive Employment and Training Act	1973–1982	Offered work to low-income individuals and summer jobs for high school students with intent of developing marketable skills. Gave authority to state governments.
Job Training Partnership Act	1982–1998	Designed to prepare unskilled workers for entry into workforce. Provided services targeting youth and workers affected by closings or layoffs.
Workforce Investment Act	1998–present	Introduced local workforce investment boards and state and local plans. Sought to involve local businesses in service delivery systems.

Through the WIA program, states provide employment-related services to the following unemployed and underemployed workers.

- **ADULTS**
- **“DISLOCATED WORKERS”**  
Adults who have lost their jobs due to specific economic conditions, such as the permanent closure of a work facility or a profession that is no longer needed in the economy.
- **YOUTH**  
Mostly low-income individuals, ages 14–21.

Services offered to adults and dislocated workers include:

*Core Services*

These services include an initial assessment of skills and abilities, access to job search databases, and determination of client eligibility for other services.

*Intensive Services*

These services include case management, a comprehensive assessment of skills and abilities, development of soft skills (interviewing, punctuality, communication, etc.), literacy training, and high school equivalency education.

*Training Services*

Individuals who have received core and intensive services and require additional training may receive funding for occupational training, (sometimes accompanied by certifications), on-the-job training, or even academic degrees.

Services offered to youth include:

- Tutoring leading to secondary school completion.
- Summer employment opportunities.
- Occupational skills training.
- Guidance and counseling.

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## WIA in South Carolina

The WIA program in South Carolina is overseen by the Governor and, since June 2010, the Department of Workforce and Employment. Statewide there are 12 local areas and 60 one-stop career centers. Unlike many states, South Carolina has no state laws or regulations guiding operation of WIA programs.

In program years 2009-2010 and 2010-2011, South Carolina received a federal WIA allocation of \$118 million plus \$60 million in federal stimulus funds, for a total of \$178 million. This program does not receive a matching state appropriation.

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**Map 1.2: Local Workforce Areas and One-Stop Career Centers in South Carolina**



# Organizational Structure

## Federal Requirements and Structure of S.C.’s Workforce System

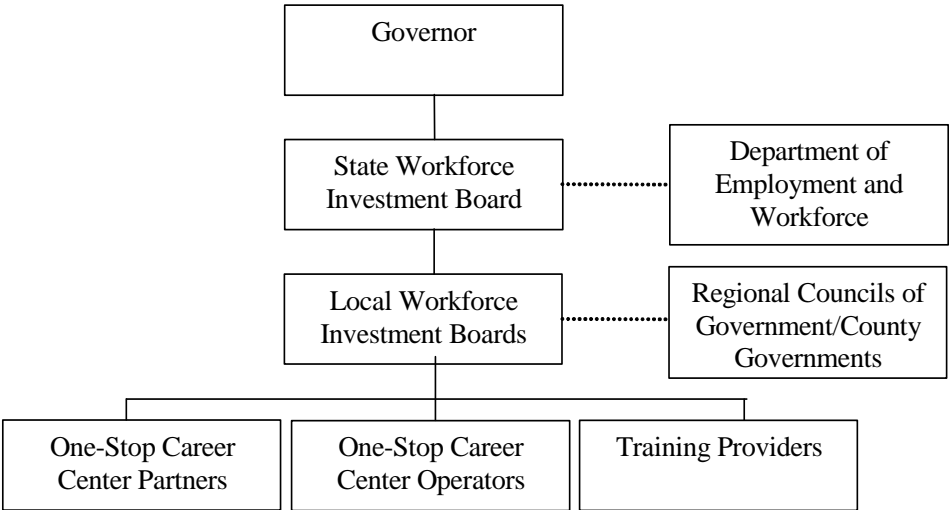
Federal law and regulation govern the organizational structure of state WIA systems. Although each state WIA system consists of a network of state and local agencies, specific organizational structure varies from state to state. We found it unlikely that there is an ideal structure. In this section we describe South Carolina’s organizational structure and an opportunity to improve services with greater oversight by the Governor.

U.S. Code Title 29, Chapter 30 outlines what is required by federal law for the WIA program’s structure. South Carolina’s WIA program is implemented jointly by the:

- Governor.
- State workforce development board (with administrative functions provided by the Department of Employment and Workforce).
- Local workforce boards (with administrative functions provided by councils on government and other entities).
- One-stop career centers.
- Training providers.

Below is an organizational chart of South Carolina’s WIA program, followed by a summary of the role of each state and local entity.

Chart 2.1: S.C.’s Workforce Investment Structure



**Governor**

- Establishes state workforce investment board.
- Develops state plan that outlines a strategy for the state workforce investment system.
- Designates local workforce areas. These areas are based on factors such as geography, availability of schools, area resources, and travel distances for client services.
- Sets criteria for selection of local workforce investment boards and members. Certifies one local board for each local area in the state.
- Negotiates performance measures for local areas with local boards and area officials.
- Sets criteria for eligibility of training providers.
- Approves local workforce investment plans.
- Has the authority to decertify local boards that are not meeting performance standards.

**State Workforce Investment Board**

- Assists in development of state plan.
- Assists in designating local workforce investment areas.
- Develops funding allocation formulas.
- Develops performance measures.
- Reviews local plans.
- Prepares annual report.
- Applies for incentive grants.

**State Department of Employment and Workforce**

- Serves as the administrative agency for the state workforce investment board.
- Provides oversight for employment, training, job search, and other work-related services.
- Coordinates training for South Carolina companies.
- Researches in-demand and growing employment sectors both statewide and for each local WIA area. Statistics may be used by local workforce boards to make informed decisions about what types of training programs should be available to clients.
- Maintains state listing of eligible training providers.

### **Local Workforce Investment Boards**

- Provide oversight to local workforce areas with regard to local employment and training activities, youth programs, and the one-stop delivery system.
- Develop local workforce investment plans. These plans includes the workforce needs of area businesses, jobseekers, and workers, the current employment opportunities within the area, and the job skills needed to match workers with the available opportunities.
- Maintain and distribute statewide and regional information, including information on projected in-demand jobs.
- Negotiate local performance measures with the Governor and area officials.
- Select eligible training providers.
- Contract with entities to operate one-stop career centers.
- Develop and enter into memorandums of understanding with one-stop center partners and providers.
- Disperse funds to training providers.

### **Regional Councils of Government/County Governments**

- Serve as administrative agencies for local workforce investment boards.
- Assist local boards in providing oversight to local workforce areas with regard to local employment and training activities, youth programs, and the one-stop delivery system.
- Assist local boards in the consideration of potential training providers.

### **One-Stop Career Centers**

- Deliver a variety of workforce investment services. These services include job search and training services, adult education, career and technical education, as well as services provided by other state and local agencies.
- Coordinate between one-stop operators and providers and training providers.

### **One-Stop Partners**

- Provide additional services for clients. These services include assistance with education, housing, social services and welfare, disabilities, and other special needs.

### **One-Stop Operators**

- Contract with local workforce boards to provide administration services for one-stop career centers.
- Coordinate services between different one-stop providers, providing on-site services.

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## Positive and Negative Aspects of S.C.'s Current Structure

### Training Providers

- Provide training and adult education, at the discretion of the local workforce boards.
  - Provide up-to-date information to the local workforce board on performance information and program cost. Providers also must annually prove that they have met performance standards.
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It is unlikely that there is an ideal organizational structure for WIA programs. With additional oversight, the WIA system could operate more consistently across the state and better ensure that program participants are receiving needed services.

As described in *Chapter 4* of this report, in South Carolina decisions regarding the amount of training funds allocated to a participant or the types of training a participant can receive are made at the local level. This decentralization can be positive, within limits, because employment conditions differ around the state, and local officials often have more complete information about their areas. For example, in the Catawba and Worklink WIA regions, job projections for child care workers have greatly increased, while in the Santee-Lynches and Upstate regions, projections have decreased. Additionally, it can be more efficient for local boards to contract with one-stop operators training providers than if this process was done at a statewide level.

There are negative aspects of a decentralized structure that are more likely to exist when statewide oversight is not adequate. For example, with limited oversight regarding the methodology used to select training programs, local areas are more likely to authorize programs in fields with low placement rates (see p. \_\_\_\_). Furthermore, some local areas may provide much larger funding allocations per WIA participant than others (see p. \_\_\_\_). More statewide oversight could narrow this gap and provide a standard methodology for determining what training is provided to participants throughout the state.

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## WIA Structures in Other States

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A 2005 federal Department of Labor study on WIA programs nationwide suggests that strong state-level leadership is a key factor in the success of WIA programming.

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A 2005 federal Department of Labor study found considerable variability in the structure of WIA programs. In Michigan, New York, and California, there were large numbers of local workforce areas. Other states, including Utah, Wyoming, Vermont, and South Dakota were organized into a single workforce area with strong state-level control.

Like South Carolina, Maryland gives a high level of discretion to local areas. Because of this decentralized focus there is a wide disparity in the one-stop career centers within the state. For example, in Baltimore there are four one-stop centers — two operated by the city, one operated by a labor union, and one operated by a for-profit organization.

Regardless of the size or structural differences between states, they are each charged with the same “work first” WIA mission. Local programs in all states are delivered through one-stop centers; however, these centers can be operated by many different entities including postsecondary educational institutions, local employment services, community-based organizations, for-profits, and government agencies.

The Department of Labor study suggests that strong state-level leadership is a key factor in the success of WIA programming. Because of the variability of funding throughout various programs and the challenge in overcoming the barriers between different programs and their compartmentalization, stronger leadership and oversight could improve training program outcomes.

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## Federal Law Regarding WIA Oversight Authority

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Federal regulations authorize the Governor, the state workforce investment board, and the lead state agency to be involved in overseeing WIA training services. Federal regulation:

20 CFR 663.420 authorizes the state workforce investment board or local workforce investment boards to set parameters regarding the allocation of training funds.

20 CFR 663.510(b) states that “The Governor must establish eligibility criteria for certain providers to become initially eligible and must set minimum levels of performance for all providers to remain subsequently eligible.”

20 CFR 663.510(c)(2) indicates that the WIA lead state agency is responsible for “... removing programs that do not meet program performance levels...”

On page 22, see recommendation #2 pertaining to an increase in statewide oversight of the WIA program.

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## Structural Conflict of Interest

The Department of Employment and Workforce is both the lead, statewide administrative agency for the WIA program and an operator of one-stop career centers in 8 of South Carolina's 12 workforce areas. This combination creates a conflict of interest.

In our review, we reviewed federal law and examined a sample of "memorandums of understanding" used by local workforce investment boards to provide a framework for the delivery of WIA services and outline the responsibilities of associated organizations, including the one-stop career center partners and operators.

Under federal law a Governor's WIA-related responsibilities include:

- Designating the lead state agency for the WIA program.
- Designating local workforce investment areas.
- Certifying the local workforce investment boards.
- Approving local workforce investment plans.

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## South Carolina

Under a new state law in June 2010 the WIA mission of the Department of Commerce was merged with the Employment Security Commission to form the Department of Employment and Workforce.

Since June 2010, the Department of Employment and Workforce, which is part of the Governor's cabinet, has been the lead, statewide agency for the WIA program. It also operates one-stop career centers in 8 of the 12 South Carolina workforce areas.

Under federal law 29 USC 2841(d)(2), local workforce investment boards are authorized to select one-stop career center operators through a competitive process or through a non-competitive process if the operator is a consortium of three or more one-stop partners.

According to WIA staff, in the eight regions where the Employment Security Commission, and now DEW, served as a one-stop operator, the selection was not made through a competitive process. Rather, the Employment Security Commission was selected as a member of consortiums of one-stop partners.



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## Conclusion

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Because the Governor and the Department of Employment and Workforce oversee the local workforce investment boards, the department could be viewed as having an advantage when local workforce investment boards select operators for one-stop career centers. During our review, DEW reported that it “decided not to continue contracting for either WIA or One-Stop operator services in local areas beyond June 30, 2011.”

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## Recommendation

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1. The Department of Employment and Workforce should discontinue serving as both the lead, statewide administrative agency for the Workforce Investment Act program and the operator of one-stop career centers.
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**Chapter 2**  
**Organizational Structure**

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# Finance

In this chapter, we address the methods used by the state government to allocate funds within the WIA program. Funding allocation methods are determined primarily by federal law and regulation. In program years 2009-2010 and 2010-2011, South Carolina received a federal WIA allocation of \$118 million plus \$60 million in federal stimulus funds, for a total of \$178 million.

## WIA Funding Methodology

Federal Workforce Investment Act funds are allocated to regions within South Carolina and to services provided by the program.

We found that, for adult and youth funding streams, federal law requires 85% of WIA funds to be allocated to local workforce areas by using formulas. For the dislocated worker funding stream, federal law requires 60% of funds to be allocated to local areas by formula, while up to 25% may be reserved for rapid response activities. These formulas are principally based on the number of unemployed citizens in the local area and the number of citizens below the poverty line. Federal law requires that 10% of state WIA funds are distributed across the state in the form of grants while the remaining 5% may be used for administration. WIA local boards have greater flexibility in funding decisions within their local area.

## WIA Funding Allotments

Table 3.1 illustrates the detailed funding allotments for WIA programs in the most recently completed program year, 2009-2010. Allotments are significantly higher for the dislocated worker category than for the adult and youth categories.

**Table 3.1: Funding Allotments by Type of Worker in Program Year 2009-2010**

PY 09-10	ADULT	YOUTH	DISLOCATED WORKER	TOTAL
Local Distribution*	\$15,411,363	16,338,792	16,543,661	\$48,293,816
Statewide Activities	\$1,813,102	1,922,211	2,363,380	\$6,098,693
State Administration	\$906,551	961,105	1,181,690	\$3,049,346
State Rapid Response	\$0	0	3,545,071	\$3,545,071
TOTAL Allotment	\$18,131,016	\$19,222,108	\$23,633,802	\$60,986,926

Source: S.C. Department of Employment and Workforce

Table 3.2 shows WIA funding allotments for program years 2008-2009 through 2010-2011, plus American Recovery and Reinvestment Act (ARRA) funds and allocations for program years 2009-2010 and 2010-2011. Excluding ARRA funding, there is a significant decline in funding during this period.

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**Table 3.2: Funding Allotments in Program Years 2008-2009 through 2010-2011**

	PY 08-09	PY 09-10	ARRA	PY 10-11 (PROJECTED)
Local Distribution*	\$61,781,939	\$48,293,816	\$50,859,382	\$44,738,064
Statewide Activities	7,936,631	6,098,693	5,983,457	5,670,770
State Administration	3,968,315	3,049,346	2,991,728	2,835,386
State Rapid Response	5,679,424	3,545,071	0	3,463,484
TOTAL Allotment	\$79,366,309	\$60,986,926	\$59,834,567	\$56,707,704

Source: S.C. Department of Employment and Workforce

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## WIA Formula Funding

Under federal law, WIA funds are allocated to local areas based on the formulas that guide federal allocation of funds among states.

The amount that a local area may receive is based on several variables, including:

- The number of unemployed workers in an area with at least 6.5% unemployment for 12 consecutive months compared with the number unemployed workers statewide in areas with at least 6.5% unemployment for 12 consecutive months.
- The number of employed workers in an area beyond the amount that constituted 4.5% of the civilian labor force compared with the number the “excess number” of unemployed workers statewide.
- The number of low-income individuals in each area compared with the number of low-income individuals statewide.

The state allocates the 85% formula funds within three funding “streams,” or program areas — youth, adults, and dislocated workers.

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## WIA Funding Through Grants

Under federal law, 10% of grants are reserved at the state level for statewide activities. Most of these funds are distributed in the form of grants. Some grants, such as incumbent worker training and incentive grants, are sent directly to local areas. The state awards the remaining grants based on competing proposals.

### Incentive Grants

For program year 2008-2009, the state board allocated \$2 million for statewide incentive grants, of which just over \$1.5 million (76%) was issued to local areas. The total formula disbursements to local areas for PY 2008-2009 were just over \$48 million. Any funds reserved for incentive grants that are not issued to local areas may be re-allocated in subsequent program years.

Incentive grants are issued to local areas based on the local areas' performance on measures established by the state WIA board. These performance measures include the common measures which measure outcomes like graduation rates for youth and job placement rates for adults. Other incentives may include program enhancement measures, which are based on the state WIA board's annual assessment of statewide needs. For example, a recent program enhancement incentive rewarded local areas for establishing plans for increasing the number of apprenticeships in the local area.

Of the total amount available statewide for incentive grants, each local area is eligible to receive a percentage not to exceed its share of WIA formula funding. A local area will receive a portion of the total amount for which it is eligible for each individual incentive measure met in a given year. The state WIA board determines the weight that each incentive carries.

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## Monitoring of Local Area Finances

We examined the ways that the overseeing agency monitors WIA financial activities at the local level. We found that, in addition to reviewing local areas' general ledgers on a monthly basis, the administrative entity conducts on-site financial and programmatic reviews of each local area annually.

Federal law requires all state WIA programs to establish a monitoring program to provide oversight for local areas. The South Carolina WIA state plan states that each of the 12 local areas are monitored annually to determine compliance with federal requirements. On-site monitoring includes compliance, programmatic and financial, and customer process reviews.

In addition to on-site visits, desktop evaluations of program operations including performance, fund utilization, participation levels and case management practices are conducted regularly to gather and analyze data. Financial monitoring includes procurement processes, cost accounting processes, and accuracy in tracking and reporting systems.

An agency official reports that local workforce boards are required to submit their general ledgers to DEW each month.

# Worker Training

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In South Carolina, decisions regarding the type of training programs to fund, the approval of training providers, and the maximum amount of training funds that can be allocated to an individual are made by local workforce investment boards. Although decentralization can be positive, as the employment conditions in each area differ, inadequate state-level oversight has resulted in significant variation in policies and practices across the state.

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## Determining Which Training Programs to Fund

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WIA participants were allocated funds for non-vocational, academic programs. Funds were allocated for bachelor's and master's degrees in fields such as biology, the arts, psychology, and history.

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The state has not implemented specific, quantified criteria for local workforce boards to follow when they determine which training programs may be funded by WIA. As a result, some training may provide skills that are less marketable in the workplace.

For example, some WIA participants were allocated funds for non-vocational, academic programs. In calendar year 2009, participants received funding allocations for bachelor's and master's degrees in fields such as biology, the arts, psychology, and history. These programs cannot be tracked to specific jobs and often require further education in order to reach field-related occupations. Non-vocational, academic degrees may not be consistent with the goal of the workforce investment system, which is to train individuals so they can enter fields with jobs that are in-demand.

The Department of Commerce has regularly identified fields experiencing growth and provides projections of in-demand jobs for the future, both regionally and statewide. However, it is unclear how much these in-demand areas are considered when local workforce boards make decisions regarding eligible training programs for WIA clients.

Table 4.1 contains a list of in-demand jobs in South Carolina, as projected by the Department of Commerce for the years 2006-2016, as well as the top areas in which WIA participants received training during 2009. The "hot jobs" listed in this table pay at least \$35,000 with a projected increase of at least 1,000 openings during the ten-year period.

Statewide, a large number of WIA participants received training in the growing fields of nursing and computer information systems. However, the enrollment of participants in non-vocational, academic programs suggests a gap between the program's stated mission and the training being provided by WIA. Other examples of WIA training programs that are not listed as high-growth fields include pet grooming, photography, and cosmetology.

**Table 4.1: Comparison of Ten Fastest Growing Job Fields in South Carolina With the Top Fields Receiving WIA Training**

TOP TEN "HOT JOBS" IN SOUTH CAROLINA PROJECTED FOR 2006-2016
Registered Nurses
Sale Representatives
Accountants and Auditors
Lawyers
Construction Managers
Network Systems and Data Comm. Analysis
Paralegals and Legal Assistants
Business Operations Specialists
Management Analysts
Pharmacists

AREAS OF WIA TRAINING, BY JOB FIELD, 2009			
	NUMBER OF PARTICIPANTS	TOTAL	AVERAGE PER PARTICIPANT
Medical	6,740	\$19,665,700	\$2,918
Computer/IT	1,214	\$6,049,620	\$4,983
Business	867	\$5,125,037	\$5,911
Truck Driving	1,181	\$3,813,683	\$3,229
Maintenance Fields	752	\$3,312,083	\$4,404
Welding	744	\$2,646,436	\$3,557
On-the-job Training	1,216	\$2,593,010	\$2,132
Construction	310	\$1,507,393	\$4,863
Youth General Education	3,691	\$1,441,304	\$390
Manufacturing	345	\$1,331,209	\$3,859
Criminal Justice	247	\$1,301,572	\$5,270
Personal Care Services	220	\$1,208,680	\$5,494
Engineering	158	\$1,041,717	\$6,593
Adult General Education	1,818	\$1,037,114	\$570
Human/Customer Services	376	\$914,063	\$2,431
Child Care	202	\$814,478	\$4,032
Other Training	224	\$713,265	\$3,184
Academic Degrees/Programs	162	\$687,178	\$4,242
Education/Teaching	46	\$274,510	\$5,968
TOTAL	20,513	\$55,478,054	\$2,705

Source: Department of Commerce data, 2010.

As evidenced by Table 4.1, a large amount of funding was allocated in 2009 for training individuals in fields related to medicine, computers and technology, and business. The job projections for 2006-2016 in South Carolina that nursing and pharmacy, accounting, technology, and business and management fields will be "in-demand." Therefore, it seems reasonable for the WIA program to provide training in these fields.



In 2009, WIA allocated \$2.6 million toward training for individuals in non-vocational academic areas, personal care services, and “other” areas, mainly out of the scope of WIA’s purpose. It is questionable whether WIA should provide training to individuals in non-vocational academic areas, such as psychology, as well as training in the personal care service industry such as cosmetology, nail care, and massage therapy. Also, many of the training programs within the “other” category, listed in the table above, may be outside of the scope of WIA’s mission. These training programs include interior design, personal training, and pet grooming.

Officials from WIA programs in Florida and North Carolina indicated that the programs in their states are focused on certification-based vocational training rather than academic degrees. After individuals are trained, they are funneled into skill-based job markets where future employment opportunities are projected to exist.

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## Determining the Eligibility of Training Providers

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Under federal law, individuals eligible to receive training are allowed to select a training provider from any eligible provider included on the area listing. In South Carolina, there has been no evaluation of training providers and their eligibility; therefore, provider lists from local areas are simply all compiled into one statewide provider listing.

Under federal regulation 20 CFR 663.510, the Governor, the lead state agency, and the local boards all have different responsibilities for managing the eligibility and selection process of training providers. According to the regulation, the Governor “must establish eligibility” and “must set minimum levels of performance for all providers to remain subsequently eligible.”

The Governor is responsible for determining the criteria for training providers for the WIA program and local boards can decide on additional qualifications for eligibility in their area. Additionally, for subsequent eligibility, providers must provide information regarding:

- Completion rate of those participating in training service programs.
- Percentage of individuals participating in programs who obtained employments.
- Wages of those in employment.
- Retention rates of employed program participants.
- Rates of licensure, certification, and attainment of academic degrees of those in applicable programs.

According to federal law 29 USC 2842(e)(1), “the designated state agency shall compile a single list of the providers identified from all local areas in

the State and disseminate such list... to the one-stop delivery systems within the State.” In South Carolina this list is maintained by the Department of Employment and Workforce.

Additionally, the lead state agency, which, in South Carolina is the Department of Employment and Workforce, is charged with “developing and maintaining the state list of eligible providers” and “determining if programs meet performance levels..., removing programs that do not meet program performance levels, and taking appropriate enforcement actions.”

Federal regulation also allows WIA participants to choose which training provider they will receive services from. The regulation, 20 CFR 663.585, states that “individuals may choose any of the eligible providers and programs on the State list”, which includes out-of-state providers. In 2009, less than 3% of training in South Carolina was provided by out-of-state providers, with about \$1.15 million crossing state lines to pay for these services. Much of the out-of-state training was provided in areas where no in-state source may be available, such as truck driver training, or in areas bordering Georgia and North Carolina, where recipients are located in close proximity to providers in those states.

Unlike South Carolina’s system of allowing individual regions to determine suitable training providers, North Carolina maintains a centralized system for the statewide approval of training providers. An official in North Carolina indicated that when a training vendor applies for certification, the local board makes the primary decision to recommend the provider. Once this step is made, the statewide board reviews the information and can decide to place the provider on the approved/certified WIA training provider list.

A statewide system of review could be beneficial in providing a clearinghouse for providers to go through, which could provide for fewer discrepancies across workforce areas.

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## Allocation of Funds to Training Participants

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In South Carolina, decisions regarding the maximum amount of training funds that can be allocated to an individual are made on a local level. There has been only limited oversight of this process by the state government. As a result, within the 12 WIA local regions in South Carolina there is a large disparity in the maximum amount of funds allocated for individual training participants. Federal regulation authorizes DEW to establish limitations on the dollar amounts that program participants can be allocated.

As illustrated by Table 4.2, the maximum allocation for 2009 participants by region was as low as \$5,760 in the Waccamaw regions and as high as \$27,960 in the Lower Savannah region. We identified 28 participants who were allocated \$20,000 or more. For these participants, the cost for training exceeded \$611,000. The table also shows the disparity in the average allocation per participant, ranging from \$1,361 in the Lowcountry region to \$4,619 in the Upper Savannah region.

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**Table 4.2: Training Allocations for Calendar Year 2009 Training Participants, In S.C. Local Areas**

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AREA	NUMBER PARTICIPANTS	MAXIMUM ALLOCATION	AVERAGE PER PARTICIPANT
Santee Lynches	443	\$7,746	\$1,755
Lowcountry	495	\$9,240	\$1,361
Upstate	1,103	\$21,875	\$4,080
Greenville	1,313	\$26,842	\$3,878
Trident	1,510	\$11,475	\$1,512
Upper Savannah	1,535	\$20,000	\$4,619
Lower Savannah	1,963	\$27,960	\$3,775
Waccamaw	2,037	\$5,760	\$1,607
Worklink	2,084	\$10,000	\$2,749
Catawba	2,299	\$8,000	\$3,982
Pee Dee	2,831	\$13,337	\$1,372
Midlands	2,900	\$8,088	\$1,878

Source: Department of Employment and Workforce, 2010.

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There is a large disparity in the amount of WIA funds allocated per participant.

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The maximum allocation to participants receiving training in 2009 for one area of the state could have been used to fund training for five or more participants at the maximum level in another area.

In calendar year 2010, which falls outside our period of review in Table 4.2, one WIA participant was allocated over \$40,000 to enroll in a master of business administration program at the University of South Carolina. An MBA may not be consistent with WIA's mission of retraining the workforce and may not be cost-effective.

Large allocation amounts raise questions concerning reasonable cost limits within the WIA program. One WIA local area official indicated that, although clients are allocated a given amount of funding for training, sometimes these amounts are exceeded.

Officials from workforce programs in North Carolina and Florida indicated that, while individual local boards determine the maximum amount of money an individual participant can be allocated for training, officials suggest that the allocation gap is significantly less than in South Carolina.

Federal regulation 20 CFR 663.420 gives authority to state and local boards to impose limitations on how much individual participants can be allocated for training programs. Under this regulation, state authorities are able to limit allocations based on the specific needs of applicants and establish a range of amounts within which allocations must be made. If limitations are set on allocation amounts at the state level, more consistency in training can be achieved across South Carolina's 12 WIA regions.

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## Communication of Training Services to the General Public

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WIA staff report that the availability of training services is communicated to individuals when they apply for unemployment benefits. It is also communicated by other state agencies, local businesses, and colleges throughout the state.

The state-level WIA program does not adequately ensure advertising of the availability of the complete range of training and related services to the general public.

WIA staff provided documentation of locally-procured advertising via billboards, bus placards, newspapers, and radio in several workforce areas. However, staff in two areas we contacted indicated they conducted no regular formal advertising.

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## Recommendations

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2. The Office of the Governor and the Department of Employment and Workforce should increase oversight of local workforce investment boards. This increased oversight should include specific, quantified criteria addressing:
    - Limits on the allocation of training funds to WIA participants.
    - Placement rate eligibility requirements for WIA training programs.
    - Placement rate eligibility requirements for WIA training providers.
  3. The Department of Employment and Workforce should ensure that the availability of the complete range of training and other WIA services is regularly communicated to the general public.

# Performance Measurement

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In this chapter we address the methods used by the lead state agency to measure the performance of the WIA program. This “lead agency” designation, formerly held by the Department of Commerce, is now held by the Department of Employment and Workforce (DEW).

The U.S. Department of Labor does not require states to report cost-based outcome measures, and recent WIA annual reports have not included them. For the program years we reviewed, South Carolina has reported all required measures to DOL. The South Carolina WIA program has also obtained federal waivers limiting the performance data reported by training providers.

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## Cost and Efficiency Measures

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We reviewed WIA accounting and record-keeping processes related to the program’s expenditures and efficiency. We found that there is no nationally-accepted measure of WIA program efficiency. While some states calculate outcome-based efficiency measures, these are not among the measures currently required by the DOL.

South Carolina has not reported cost per participant data or cost per outcome data in recent WIA annual reports. However, these reports do include “return on investment” for one training program. Though useful, return on investment is difficult to use for comparative purposes because of the multiple ways it can be calculated. In addition, WIA staff have developed “dashboard indicators,” including cost per participant by local area, that are reported to the state workforce investment board.

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## Cost Per Participant

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We examined the extent to which South Carolina and other states measure cost per participant. Although this measure is not among the indicators of performance, called “common measures” that the U.S. Department of Labor (DOL) requires in states’ annual reports, we found that cost per participant is reported by many state WIA programs, including Florida, North Carolina, Kentucky, and Texas.

South Carolina has not included cost per participant statistics in its WIA annual reports since program year 2006-2007, but the agency can generate these figures from available data. Table 5.1 outlines the cost per participant measures for adults and for youth for the program years 2005-2006 through 2008-2009.

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**Table 5.1: Cost Per Participant**

	PY 05-06	PY 06-07	PY 07-08	PY 08-09
Adult*	\$1,086	\$2,092	\$1,758	\$1,396
Youth	\$3,090	\$3,258	\$3,633	\$3,522

\* Cost per participant for Adult and Dislocated Worker participants are combined. These figures exclude administrative costs and self-service resources for adults.

Source: SC Department of Commerce

### Shortcomings of Cost Per Participant Figures

“Cost per participant” for WIA activities is not an ideal measure of program efficiency because it provides no information on program outcomes.

In August 2009, DOL sent a guidance letter to state workforce administrators regarding the annual reports that states are required to submit to DOL. In this document, the DOL notes that cost per participant “is of limited use in measuring the effectiveness of a program, because it measures appropriations or allotments to participants served.” A more valid measure would relate costs to desired program outcomes.

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## Cost Per Outcome

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South Carolina has not reported cost per outcome measures in its recent WIA annual reports. In addition, the U.S. Department of Labor does not currently endorse any specific methodology for calculating WIA program cost per outcome. However, there are several methods that states may use to assess program cost per outcome, and a recent DOL study may determine what measures are most appropriate for state WIA programs.

It is important to note that outcome-based performance measures are based on the assumption that a program’s outcomes are a direct result of the program’s activities.

WIA data reported to DOL annually by South Carolina may not be ideal for assessing program efficiency because they are totals for a particular time period, not inputs and outputs for specific program participants. For example, data may include service costs for customers who obtained jobs after the time period or may count jobs obtained by participants who received services prior to the time period.

Recognizing the limitations of the available data, we calculated estimates for several outcome-based efficiency measures to approximate the program's success. We calculated these measures over a four-year period to minimize the effects of lag time between when customers receive services and when they enter the workforce.

Table 5.2 shows estimates of two simple cost per outcome measures for program years 2005-2006 through 2008-2009. These figures are based on the total WIA program expenditures over these four years, totaling \$133,604,046.

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**Table 5.2: Cost Estimates for Combined Local WIA Adult and Dislocated Worker Programs — Program Years 2005-2006 through 2008-2009**

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	PROGRAM EXITERS	ENTERED EMPLOYMENT (WITHIN 6 MONTHS OF EXIT)
Participants	37,324	21,975
Cost Per Outcome	\$3,580	\$6,080

Source: LAC calculations from data reported to U.S. DOL by the S.C. Department of Commerce.

In May 2010, the DOL published the results of a two-year study to identify effective outcome-based efficiency measures in employment and training programs. An official from DEW stated that the department is monitoring the progress of a pilot study to determine which methodologies can be used to better assess the efficiency and effectiveness of the state's WIA activities.

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## Measuring Return on Investment for Incumbent Worker Training Programs

Although South Carolina does not utilize an outcome-based measure of efficiency for other WIA programs, it does report an outcome-based measure called "return on investment" for its Incumbent Worker Training (IWT) program based on program expenditures and subsequent changes in employee wages. However, we found that the method prescribed by DOL to calculate return on investment for IWT programs may limit its usefulness.

The IWT program creates partnerships with South Carolina businesses to provide subsidized training for workers they currently employ. Partnered businesses may obtain funds to provide training for their current employees, with the goal of better equipping their existing workforce and avoiding layoffs.

Based on an hourly wage estimate of \$6.55 per hour, the department reported that its \$2 million investment in IWT programs for program year 2008-2009 resulted in a return of more than \$28 million in recurring annual wages. The department reports this outcome as a 1,384% return on investment. Based on direct feedback from employers, South Carolina reported that the IWT program saved 1,657 jobs and created 429 new jobs in program year 2008-2009.

We do not have access to data that would permit a comparison between South Carolina's IWT program and those in other states. Although research suggests that incumbent worker training generally provides states with positive returns on their investment, we cannot draw conclusions about the effectiveness of South Carolina's program based solely on outputs. Interpreting the magnitude of this return on investment figure would require a point of reference from other similar programs.

### **Difficulty of Calculating Return on Investment**

DOL identifies "return on investment" as being one of the most useful measures of efficiency, but also one of the most difficult and costly to calculate. South Carolina uses DOL instructions to calculate return on investment for the IWT program. However, this methodology is based on several assumptions.

DOL's instructions for calculating return on investment for the IWT program require dividing the total increase in earnings by the cost of the program. It is assumed, however, that job and wage data, which are reported to the Department of Employment and Workforce by participating businesses, are a direct result of the training provided. Also, these figures only relate state costs to employee benefits. There may be additional, uncounted costs and benefits to the employees, to the state (in tax revenue, for example), and to the business itself.

There are numerous ways to calculate return on investment, depending on what are counted as costs and what are counted as benefits. For example, Michigan and New York include avoidance of welfare and unemployment insurance payments as benefits in their calculations of program-wide return on investment. These may make calculations more comprehensive, but also make them more complicated and costly to produce.

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## **Recommendation**

4. The South Carolina Department of Employment and Workforce should expand its use of outcome-based measures of efficiency to assess WIA programs.



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## Lack of Cost and Performance Data on Eligible Training Providers

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Many training providers have never reported cost and performance data.

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Many eligible WIA training providers have been granted repeated waivers from the requirement that they submit cost and performance information to the Department of Employment and Workforce. This lack of performance information may compromise the ability of WIA local areas and participants to select the best training providers.

Federal regulations require WIA training providers to submit cost and performance information annually to local workforce investment boards for each eligible WIA program. This information includes the percentage of participants who complete training programs, the percentage of those completing training programs who obtain employment, and their wages at the time of employment. A training provider may lose its eligibility to provide WIA programs if it does not meet established performance levels in these areas.

Federal WIA regulations allow a period of “initial eligibility,” up to 18 months, during which eligible training providers are not required to submit performance or cost information. However, In 2002, South Carolina obtained a waiver from the U.S. Department of Labor that postponed any determination of subsequent eligibility for all providers and, accordingly, waived the cost and performance data submission requirement. The 2002 waiver request was submitted by the Governor for a one-year period “to give South Carolina sufficient time to meet the data collection requirements.”

Although the initial waiver was granted by DOL for only one year, South Carolina has requested and been granted additional extensions of this waiver, continuously, since 2002. As a result, some eligible training providers have effectively been in a period of initial eligibility for eight years. These providers have never been subject to the cost and performance data submission requirements outlined in the federal regulations.

According to agency officials, the waiver only applies to training providers who were on the eligible training provider list at the time of the initial waiver request. All providers added to the WIA eligible training providers list since 2002 are required to submit cost and performance data annually, as required by federal regulation, starting one year after being granted initial eligibility. However, the providers covered by the waiver have never been required to submit data for any program, not even for new programs that they have added in the eight years since the waiver was initially granted.

As of January 2010, 25 states, including South Carolina, had an active waiver from DOL on the time limit for the period of initial eligibility for training providers. A DEW official stated that the agency is currently exploring the cost and feasibility of implementing all data-reporting requirements without a waiver.

It is important to note federal law 29 USC 2842(d)(3)(A) states that if a Governor or local board requests information that:

... imposes extraordinary costs on providers, or if providers experience extraordinary costs in the collection of information  
... the Governor or the local board shall provide access to cost-effective methods for the collection of the information involved, or the Governor shall provide additional resources to assist providers in the collection of such information...

Continually extending this temporary designation may compromise South Carolina's ability to assess the quality and cost-effectiveness of the training that WIA participants receive from specific training providers. Tracking cost and performance data on all eligible training providers would allow the state to ensure that WIA participants are obtaining quality training that will maximize their ability to obtain employment.

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## Recommendation

5. The South Carolina Department of Employment and Workforce should track and report cost and performance data as required in the Workforce Investment Act.

# Agency Comments

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**South Carolina Department of Employment and Workforce**  
**Response to “A Review of the South Carolina Workforce Investment Act**  
**Program”**

We appreciate the in-depth review and recommendations of the Legislative Audit Council. We have already acted on several of the recommendations and will ask the State Workforce Investment Board to seriously consider those that affect policy change at its next meeting. We respond only for clarification purposes.

- The report states that, “Federal regulations authorize the workforce investment board to set parameters on the allocation of training funds.” This is a true, but incomplete, statement. Federal regulations authorize EITHER the state OR local boards to set parameters on the allocation of training funds. South Carolina, like most states, has opted for local boards to exercise that responsibility. We will ask the State Board whether it wants to revisit this decision at its next meeting.
- The report states that, “Beginning in July, 2010, DEW established financial incentives for local areas that target “high-growth or high-demand industries/occupations.” Federal regulation requires that all WIA training money be spent only on programs leading to in-demand jobs. Those jobs may vary by local area. Therefore, the incentive policy for the year that began in July, 2010 actually requires that local areas research and, working with economic development partners in their areas, identify and target the three to five sectors to which training will be limited the following year.
- The report discusses several performance measures, including cost per participant and cost per specific outcome. Annual reports required by USDOL require responses to set questions. None of those questions ever asked for any of the measures mentioned in the LAC report so they were not included. However, South Carolina has figured and reported cost per participant for the past three years to State Board committees and to the State Board in open meetings each year. The Board has developed a “dashboard” of indicators and looks forward to the possibility of including additional measures identified by the LAC in those reports.

The S.C. Department of Commerce, the agency that managed the Workforce Investment Act program until June 2010, was provided a copy of this report for review and chose not to provide final comments.

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This report was published for a total cost of \$30; 60 bound copies were printed at a cost of 50¢ per unit.